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## EVALUATION AND RANKING OF

ITEMS ON THE CONSOLIDATED CHINA SPECIAL LIST AND THOSE ITEMS ON THE COCOM LIST WHICH HAVE BEEN PROPOSED BY UNITED KINGDOM AND JAPAN FOR REMOVAL FROM CHINA DIFFERENTIAL CONTROLS.

Listed in this document are 240 items. These include all items listed in the Consolidated China Special List (of July 13, 1955) and any other items subject to international control by COCOM which the governments of the United Kingdom and Japan have recently proposed for removal from differential controls. This list of 240 items differs in coverage from the 297 items referred to in earlier documents in that items which appear on the COCOM list which were not specifically mentioned by the Japanese or the British are not included.

This list is the result of two general types of analysis: (a) review by CIA and the Department of Defense to arrange the items so far as possible into three groups of relative strategic and economic significance to Communist China and (b) an evaluation by the Departments of Commerce and State of the advantage to the free world countries of the opportunity for unrestricted trade with Communist China in these commodities.

The CIA and Defense attempted to achieve as high a degree of unanimity in their evaluations as was consistent with the methods of analysis each believed to be suitable for this exercise.

Basis for Department of Defense Judgment

The Department of Defense judges that a rating of least economic and strategic significance (List A) applies where available data indicate (1) there is presently no short supply in the Sino-Soviet Bloc and/or (2) a low level of estimated requirements in Communist China, and/or (3) non-essentiality to planned industrial expansion or direct military demand. A rating of average economic and strategic significance (List B) applies where available data indicate (1) there is presently a tightness in the Sino-Soviet Bloc in the capacity to produce the items in question, and/or (2) reasonably adequate substitutes are available. A rating of greatest economic and strategic significance (List C) applies where available data indicate that (1) the items are in short supply and the shortage cannot be readily overcome within the Sino-Soviet bloc by reason of high economic cost or complexity (2) advanced technology is incorporated in the items and/or (3) there is a substantial direct military demand.

Basis for CIA Judgment

The two factors considered in evaluating the significance to Communist China of individual items under differential controls are the supply or availability to Communist China and importance to major industrial sectors. The relative weight placed on these factors is a matter of qualitative judgment. CIA considers that the items agreed with Defense as being of least and average significance (Lists A and B) are those in which internal

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Bloc sources are most adequate to meet major Communist Chinese requirements. The distinction is between items that are of least and of those that are of average significance to major sectors of an industrial economy. All of the remaining items, presently in Defense's List C are of greater significance to major industrial sectors than items in the preceding categories. However, on the basis of the Bloc's comparative ability and apparent determination to assist in meeting China's planned industrial requirements, a number of the items presently in List C might have been placed in List B. CIA has sought to place items in Category C when they were both of greatest significance to major industrial sectors and their availability to Communist China was in doubt. Factors considered as limiting the availability of these items to Communist China include:

- 1) Free World know-how in technology or production is superior to the Soviet Bloc.
- 2) There is a high cost or difficulty of transport resulting from the operation of present differential controls.
- 3) Most clearly and persistently documented cases of overall Bloc shortages have been established.

Consequently the items identified by CIA as being of greatest economic and strategic significance to Communist China are those for which the continuation of control has a most probable adverse effect on Chinese industrial growth.

#### Summary of CIA and Defense Ratings

At the conclusion of the joint review, Defense and CIA were in agreement that 37 items should be classified as List A.<sup>1/</sup> As for List B, the CIA and Defense were agreed that the 37 items shown in Tab D 1 should be classified as having average strategic and economic significance to the Communist Chinese. The CIA believed that other items or parts of items shown in List C of Tab D 1 could also be included on List B. As noted on the table the Department of Defense judges all the items on List C to be of greatest strategic and economic importance to Communist China. CIA, however, believes that only 41 of the 166 items on List C can be so characterized under present differential and trade controls. These items are indicated on the list by the letter (f) following the list number. The Department of Defense and CIA are agreed that there are some items on List C which describe broad categories from which less important portions might be selected for inclusion in another list. These items (24) are similarly identified in Tab D 1 with the letter (e). Review and possible redefinition of these items is in progress.

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<sup>1/</sup> Notwithstanding the fact that in Tab A 1, pages 43 and 44 that this list consisted of 34 items. The list of 36 items represents a further review and revision.

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Commerce and State Judgment of Economic and Commercial Importance to the Free World.

With respect to the importance of increased trade in each industry upon the economies of the COCOM countries and their territories, the ratings appearing in the tables represent a subjective judgment of representatives of the Department of Commerce and State. In order to be as consistent as possible, a standard method of evaluation was applied to both the free world countries and Japan. Because many of the categories proposed by these two governments could not be evaluated as independent groups, products of reasonably homogeneous industries were analyzed together. A study was made of each of the homogeneous groups to determine whether a significant part of the output of each industry might be made available for trade with China. For each of the industry groups, the following indicators of the economic conditions in each important COCOM producing country were investigated: (a) present production compared with capacity; (b) prospects for continuing or achieving near capacity production in the future (six months to a year); (c) recent export levels; (d) prospective export market; (e) strength of home market; (f) in the case of Japan, identification of items that are considered "bait" for imports badly needed by the Japanese economy; and (g) likelihood or possibility of diverting output of an industry operating at capacity from home use to export sales for balance of payments reasons. The economic position of each industry in each country was rated on a scale of 1 to 4, defined as follows: (1) important (2) probably important (3) probably unimportant and (4) unimportant. An intermediate classification between (2) and (3) was identified as 2-3. In making these judgments it was recognized that irrespective of the present state of any industry most countries would have a strong interest in developing a market in China. This factor was purposely ignored in making the ratings, since it would have tended to bring about a series of high ratings. Account was also taken of the volume and distribution countrywise of the exceptions which have been approved in CHINCOM.

Ranking of Items in Lists A and B.

A further ranking of items selected by Defense and CIA as falling in lists A and B was attempted by representatives of State and Commerce. Account was taken in these rankings of the significance of the items for both Communist China and the Free World. As a consequence -- Groups I, II and III were set up within List A and Groups I and II within List B. No items were shifted from List A to List B, or vice-versa, during this exercise, but some shift in rankings within each list was made in order to reflect the possible importance of volume of potential trade. In the following tabulation the relative importance of the factors are noted:

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	Economic and Strategic Importance to Communist China	Economic and Commercial Interest to the Free World
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<u>List A</u>		
Group I	Least	Important
Group II	Least	Average importance
Group III	Least	Not important
<u>List B</u>		
Group I	Average	Not important
Group II	Average	Important

Asterisks were affixed to items in Tab D 1 for which the volume of trade might be of some importance.

Throughout the table items have been identified which have been proposed by the United Kingdom and Japan in special communications to the US for priority action. The United Kingdom's list ranked 16 groups of items, including 89 individual items. The Japanese proposed a first priority for 61 items and second priority for 73 items. In addition, Japan requested US concurrence to exceptions requests on 8 items.<sup>1/</sup> The number of items falling in the various categories are recorded in the following table.

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<sup>1/</sup> The Japanese request mentioned 11 items, but only 8 of the item numbers used in this review were affected.

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	Total Items	Japanese Priority I	Japanese Priority II	Japanese Exception Requested	British Priority	Items on Both British and Japanese List	Items Not on Priority Lists
<u>List A</u>							
Group I	14	8	6	0	9	9	0
Group II	11	0	0	0	0	0	11
Group III	12	0	1	0	2	0	9
Sub-total	37	8	7	0	11	9	20
<u>List B</u>							
Group I	21	1	7	0	10	6	9
Group II	16	5	3	0	4	1	5
Sub-total	37	6	10	0	14	7	14
<u>List C</u>							
Ranking 1	12	9	7	6	7	7	0
Ranking 2	60	29	31	1	27	27	10
Ranking 3	16	3	12	0	2	1	3
Ranking 4	45	4	2	1	23	5	22
Ranking 5	33	2	4	0	5	0	23
Sub-total	166	47	56	8	64	40	56
Grand-total	240	61	73	8	89	56	92

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